

Message Text

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FOR EUR AND EB ONLY

E.O. 11652: XGDS-1
TAGS: EFIN, IMF, TU
SUBJ: TURKEY'S IMF STANDBY PERFORMANCE

REF: ANKARA 5114

SUMMARY: IMF COUNTRY DIRECTOR FOR TURKEY CHARLES WOODWARD,
AFTER 10 DAYS IN ANKARA REVIEWING TURKEY'S PERFORMANCE UNDER
IMF STANDBY AGREEMENT INFORMED EMBOFFS THAT TURKEY IS
UNLIKELY TO QUALIFY FOR NEXT TRANCHE DRAWING. WOODWARD
ATTRIBUTED FAILURE TO INABILITY OF TURKISH AUTHRITIES TO
DEAL REALISTICALLY WITH THEIR ECONOMIC PROBLEMS. END SUMMARY

1. TURKEY HAS FAILED TO COMPLY WITH THE TERMS OF ITS IMF
STANDBY. CHARLES WOODWARD, HEAD OF THE IMF TEAM REVIEWING
TURKEY'S STANDBY PERFORMANCE, TOLD EMBOFFS JULY 20 THAT
TURKEY HAD FAILED TO MEET LIMITATIONS ON CENTRAL BANK NET
DOMESTIC ASSETS AND CREDITS TO THE PUBLIC SECTOR;
ALTHOUGH HE HAD NO FIRM INFORMATION, HAD APPARENTLY ALLOWED
ACCUMULATION OF CURRENT ARREARS; HAD ENTERED INTO NEW
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BILATERAL PAYMENTS ARRANGEMENTS IN CONTRAVENTION OF ARTICLE 17
OF THE LETTER OF INTENT (ALTHOUGH HE WOULD HAVE TO LEAVE THE
EXACT DETERMINATION TO IMF LAWYERS); AND, MOST IMPORTANT, HAD
NEGLECTED TO DO ANYTHING TO CARRY-OUT ITS INTENTIONS STATED
IN THE LAST TWO SENTENCES OF ARTICLE 15 OF THE LETTER OF
INTENT, TO MOVE TOWARD ESTABLISHING A REALISTIC, FLEXIBLE
EXCHANGE RATE POLICY.

2. ACCORDING TO WOODWARD, FINANCE MINISTER MUEZZINOGLU TOLD HIM THAT MOVEMENT ON EXCHANGE RATE POLICY WOULD BE POLITICALLY IMPOSSIBLE UNLESS THE IMF COULD GUARANTEE TURKEY'S RIGHT TO DRAW ITS NEXT SDR 40 MILLION TRANCHE UNDER THE STANDBY, A DEMAND WOODWARD COULD NOT MEET. DRAWDOWN COULD HAVE BEEN MADE ON OR AFTER AUGUST 25.) THE BASIC PROBLEM IS APPARENTLY THAT ECEVIT FEELS THE MARCH 1 LIRA DEPRECIATION PRODUCED NO OBVIOUS ECONOMIC IMPROVEMENT, AND HE IS UNWILLING TO TAKE THE POLITICAL HEAT OF ANOTHER DEPRECIATION IF IT PROVIDES NO IMMEDIATE POLITICAL OR ECONOMIC BENEFITS.

3. WOODWARD WAS DEEPLY DISAPPOINTED BY THE TURKS' LACK OF FRANKNESS IN DEALING WITH HIS TEAM. HE BELIEVED THAT MINISTRY OF FINANCE OFFICIALS HAD DELIBERATELY OBSCURED INFORMATION, AND THAT KEY MINISTERS CONTINUED TO SPOUT ROSY OFFICIAL PROJECTIONS, CONTRARY TO THE OBVIOUS ECONOMIC REALITIES. (AN EXAMPLE OF THIS ATTITUDE WAS THE ADAMANT INSISTENCE BY STATE ENTERPRISES MINISTER BULUTOGLU, WHOM WOODWARD REGARDS AS THE BEST OF TURKEY'S ECONOMIC TEAM, THAT INFLATION WOULD AVERAGE ONLY 10 PERCENT BETWEEN 1977 AND 1978 WHEN IT IS PLAIN THAT EVEN IF PRICES DID NOT INCREASE FOR THE REST OF THE YEAR, INFLATION WOULD BE 34 PERCENT.)

4. WHEN HE NEGOTIATED THE STANDBY AGREEMENT, WOODWARD THOUGHT THE ECEVIT GOVERNMENT WOULD BE EASIER TO WORK WITH THAN THE CONFIDENTIAL

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PREVIOUS COALITION GOVERNMENT, BUT HE FINDS THIS ADMINISTRATION IS CAUGHT UP IN AN IDEOLOGICAL STRAIGHT-JACKET WHICH MAKES NEGOTIATIONS ESPECIALLY DIFFICULT. WOODWARD HAD NOT EXPECTED A DIRECT CONFRONTATION WITH THE TURKS OVER THE STANDBY, BUT THE GOVERNMENT APPARENTLY DOES NOT HAVE MUCH FLEXIBILITY TO TAKE ESSENTIAL CORRECTIVE ACTIONS. WOODWARD ATTRIBUTES THIS DEFICIENCY TO THE FACT THAT FINANCE MINISTER MUEZZINOGLU APPARENTLY NEGOTIATED THE STANDBY AGREEMENT WITHOUT THE ACTIVE INVOLVEMENT OF THE COUNCIL OF MINISTERS. THEREFORE, KEY MINISTRIES REMAIN UNAWARE OF THEIR RESPONSIBILITIES IN IMPLEMENTING THE AGREEMENT AND THERE IS NO OVERALL GOVERNMENT COORDINATION TO MAKE THE AGREEMENT WORK. WOODWARD REMARKED THAT THE CABINET NOW SEEMED TO BE ATTEMPTING TO RENEGOTIATE THE STANDBY.

5. WOODWARD SAID HIS INSTRUCTIONS FROM IMF MANAGING DIRECTOR JACQUES D LAROSIERE ON THIS MISSION WERE TO BE "FIRM BUT FLEXIBLE". HE INTERPRETED THIS DIRECTION AS TELLING HIM TO BE MORE FIRM THAN FLEXIBLE. THE LACK OF A POSITIVE, FORTHCOMING RESPONSE FROM THE TURKISH AUTHORITIES LEAVES WOODWARD WITH VIRTUALLY NO ALTERNATIVE BUT TO RECOMMEND NEGATIVELY ON ECONOMIC GROUNDS REGARDING TURKEY'S ACCESS TO FURTHER IMF

DRAWINGS; HOWEVER, HIS PRESENTATION WILL BE COUNTERBALANCED BY POSITIVE POLITICAL ARGUMENTS FROM JACQUES DE GROOTE, TURKEY'S IMF EXECUTIVE DIRECTOR, WHO IS ALSO IN THE COUNTRY CONSULTING WITH THE TURKISH AUTHORITIES. WOODWARD DID NOT KNOW WHAT POSITION DE LAROSIERE WOULD TAKE, BUT HE REMARKED THAT ANY CHANGES IN THE STANDBY TERMS WOULD HAVE TO BE APPROVED BY THE BOARD OF EXECUTIVE DIRECTORS.

6. WOODWARD NOTED THAT FINANCE UNDER-SECRETARY GUCSAVAS THOUGHT THAT THE MATTER COULD BE PAVERED OVER BY SOME NEW STATEMENTS OF GOT INTENTIONS; HOWEVER, WOODWARD REGARDED SUCH STATEMENTS AS MEANINGLESS UNLESS IMPLEMENTING ACTIONS WERE TAKEN AND HE HAD LITTLE CONFIDENCE THAT THE CURRENT GOVERNMENT WAS ABLE OR WILLING TO TAKE THE APPROPRIATE ACTIONS. CONFIDENTIAL

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7. COMMENT: WOODWARD ASKED THAT THIS INFORMATIO BE TIGHTLY HELD. HE WAS PARTICULARLY CONCERNED ABOUT VIOLATING THE GENERAL RULE THAT ALL IMF/US CONSULTATIONS SHOULD TAKE PLACE THROUGH US EXECUTIVE DIRECTOR SAM CROSS. WOODWARD EXPECTS TO LEAVE ANKARA JULY 21. EMBASSY SUGGESTS THAT DEPARTMENT REQUEST A JOINT STATE-TREASURY DEBRIEFING FROM WOODWARD IN SAM CROSS' OFFICE NEXT WEEK.

8. SEPTTEL WILL FOLLOW ON EMBASSY'S EVALUATION OF POSSIBLE IMPLICATIONS OF THIS DEVELOPMENT. DILLON

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